HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK
## Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2010

## NEW HOME MARKET

### Housing starts to moderate in 2011

Following a 38 per cent reduction in 2009, total housing starts across the Saskatoon Census Metropolitan Area (CMA) are on course to advance 49 per cent, climbing to 2,125 units this year. So far this year, a slower pace of price growth, coupled with near-record low mortgage rates and a continually improving economic landscape have combined to strengthen consumer demand for housing.

In 2011, higher prices for commodities such as potash, uranium and natural gas will further strengthen the economy, bolstering employment and consumer demand for housing. Nonetheless, the gains from this will

Figure 1

Source: CMHC, CMHC Forecast (f)

† The forecasts included in this document are based on information available as of October 08, 2010.

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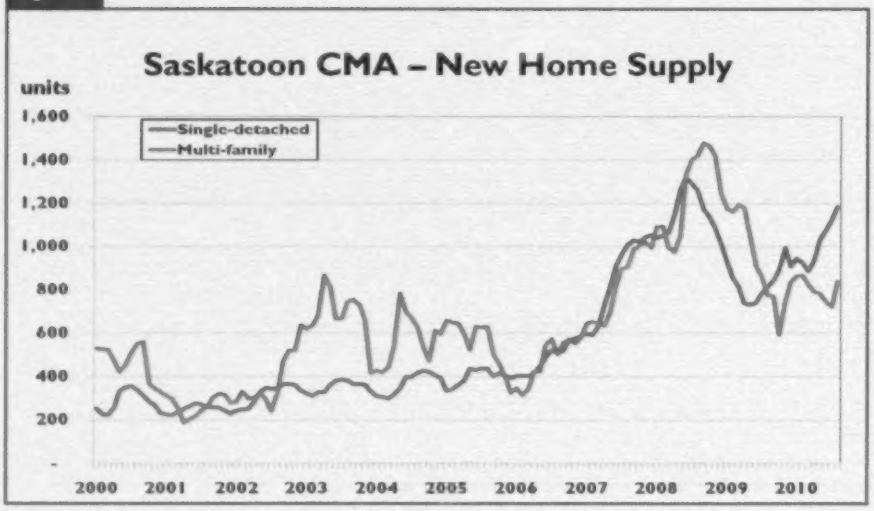
be largely offset by advances in monthly carrying costs, as well as rising inventories and heightened competition from the resale market. In addition, with this year's unseasonably wet weather extending the duration to construct a home, particularly during the spring and summer months, we expect a moderation in the pace of starts next year as local builders devote considerable resources to the completion of units currently underway. Collectively, these factors will set the stage for a 20 per cent reduction in total housing starts across metro in 2011 as builders begin construction on 1,700 new units.

Figure 2




Source: CMHC

## Single-detached starts to rise 45 per cent in 2010

Single-detached home builders are on pace to initiate construction on 1,600 units in 2010. This will represent the highest production by area builders in the last 30 years, and highlight a substantial 45 per cent improvement from the 1,101 units tallied in 2009. To the end of September, builders poured foundations for 1,297 units, up from 691 units the previous year. This heightened pace of activity has seen local builders initiate an average of 144 units each month, almost double the 73 single-detached starts that builders across metro had typically averaged over the prior 10 years.

The elevated pace of starts has begun to propel an increase in the supply of single-detached homes across metro. At 1,182 units in August, single-detached supply, which includes units under construction and those that are completed and unoccupied, was 46 per cent higher than the previous year. This increase was primarily due to a rise in units under construction although additions to inventory have also contributed to recent gains. The 1,064 units under construction in August were 59 per cent higher than the previous year.

It is unlikely the recent pace of activity will continue over the forecast period as local builders grow mindful of increased supply levels, particularly unsold units under construction. Similarly, the slower pace of resale price growth relative to new home price gains anticipated over the forecast period will inhibit some move-up buying as sellers carry forward less equity gains from the sales of their existing homes. Hence, despite next year's stronger economic conditions and sustained in-migration ensuring elevated demand for single-detached housing, we anticipate a moderation in the pace of single starts. This paves the way for a 19 per cent decline in single starts in 2011 as builders break ground on 1,300 units.

## Price pressures persist through 2011

Following a 7.6 per cent decline in 2009, Statistics Canada's New House Price Index (NHPI) is expected to advance 2.7 per cent this year. The NHPI measures the price increase of homes where the specifications remain the same between two consecutive periods. So far this year, the gains can be attributed to advances in both the house and land components of the NHPI, as the heightened pace of housing starts thus far continues to exert pressure on both land and input costs such as labour and building materials. Despite next year's moderation in starts, the heightened level of units under construction will contribute to an additional 2.9 per cent uptick in the NHPI next year.

On the heels of a 4.6 per cent increase in 2009, the average absorbed price for new single-detached units is expected to moderate slightly this year, going from $383,234 in 2009 to $382,000 in 2010. Unlike the NHPI, consumer demand for larger or smaller homes with more or less features influences the average price. Of more significance, the average absorbed price is also subject to compositional effects that may arise as a result of the distribution of sales within various price ranges.

Accordingly, while 36 per cent of all new single-detached absorptions across metro occurred at price ranges above the $400,000 price point last year, to the end of August this year that proportion was down to 31 per cent. Next year, the average absorbed price will rise by 2.6 per cent to $392,000. With housing demand expected to remain strong, price pressures will persist within the construction industry.

### Supply of multiple units starts to advance in 2010

Multi-family starts, which include semi-detached, row, and apartment units, are on pace to advance 61 per cent this year as local builders initiate 525 multi-family units. This comes on the heels of a 68 per cent decline in multi-unit starts in 2009. Last year's reduction in multi-unit starts was effective to trim supply levels, which peaked in September of 2008. The decline in starts last year culminated in a 33 per cent reduction in the supply of multi-family units across metro through 2009, ending the year at 835 units.

A major impetus for the decline in supply was the large number of completions and corresponding rise in absorptions during the second half of 2009 and the first quarter of 2010. The 420 multiple absorptions tallied during the first eight months of 2010 were the second highest within the past 21 years. Although demand for multi-unit housing is expected to remain strong, higher carrying costs, and heightened resale competition, will nonetheless temper the level of demand in the coming year.

Despite the heightened pace of absorptions, the supply of multi-family units has begun to advance on account of the significant uptick in multi-unit starts witnessed to date. At 838 units as of August, the supply of multiples was eight per cent above the amount recorded at the corresponding period last year. We anticipate that the heightened supply levels will also contribute to the reduction in activity next year as builders scale back the pace of starts and focus on completing and selling units currently underway or in inventory. This paves the way for our forecast of a 24 per cent decrease in multiples starts to 400 units in 2011.

### Uptick in condominium market

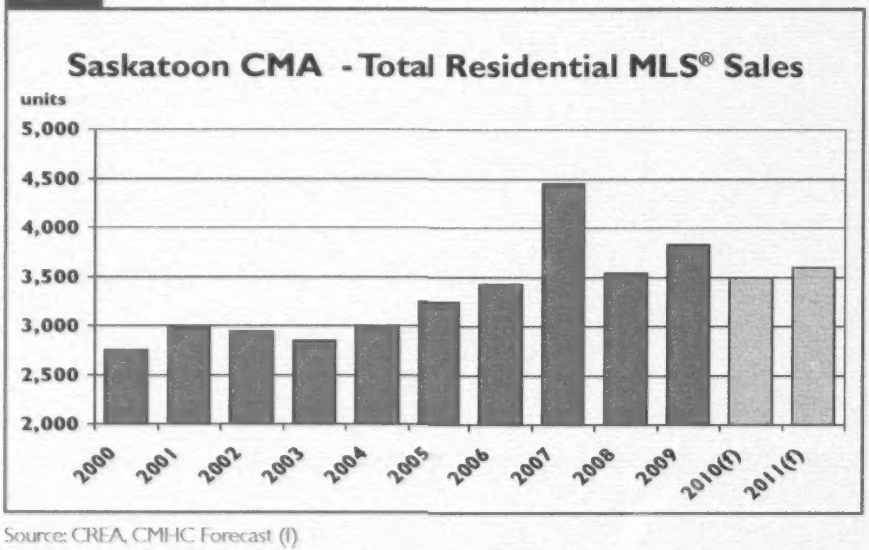
With the average absorbed price of new single-detached homes rising 16 per cent annually on average between 2006 to 2009, some first-time homebuyers have turned to the apartment, row, and semi-detached style as a less costly home ownership alternative. Concurrently, demand for apartment condominiums has been particularly strong as low mortgage rates and sustained rent increases have narrowed the spread between renting and ownership, thus drawing increased numbers of first-time buyers into this housing segment. Accordingly, the 254 apartment absorptions recorded during the first eight months of the year represented a 94 per cent advance from the corresponding period last year and highlights the highest number of apartment absorptions across metro in 21 years.

## RESALE MARKET

### MLS® Sales to moderate in 2010

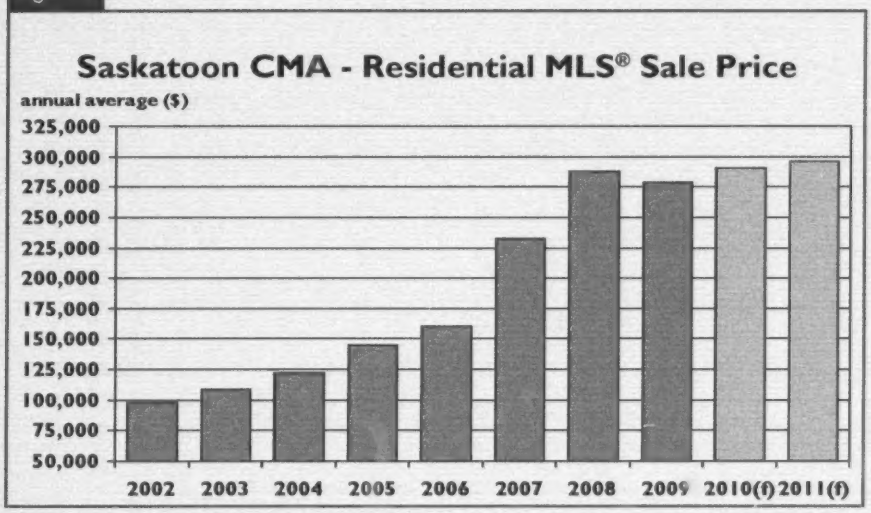
Riding on the momentum from the second half of 2009, resale activity in Saskatoon began the year on a strong footing. Historically low mortgage rates and moderations in resale house prices combined to reduce monthly carrying costs, actualizing pent-up consumer demand for housing. This culminated in a 10 per cent year-over-year increase in sales to the end of March. However, the heightened pace of sales began to wane in the second quarter of 2010 as changes to mortgage qualifying criteria and

Figure 3




Source: CREA, CMHC Forecast (f)

Figure 4




Source: CREA, CMHC Forecast (f)

advances in house prices began to temper demand. Accordingly, to the end of August, sales were down 6.3 per cent on a year-over-year basis, and we anticipate a continuation on this trajectory through the balance of the year.

While the strong start to the year will mitigate some of the moderation in the latter months, residential transactions will decline this year to 3,500 units, down nine per cent from 2009. In 2011, activity in the existing home market will climb three per cent, bringing sales to 3,600 units. A wide choice of listings, slower price gains, sustained job growth, and heightened in-migration will support the increase in sales next year.

## Moderate price gains in 2010 and 2011

Following a 3.1 per cent price moderation to $278,895 in 2009, the average MLS® price will rise over four per cent to $291,000 this year. While this represents an improvement over the previous year, it is a moderation compared to the 10.5 per cent average annual price growth observed over the prior 10 years. The economic expansion in 2010 along with average wage growth near seven per cent to the end of August has helped support price growth this year. Rising prices have encouraged listings and at 2,638 units in August, active listings were 12.4 per cent higher than the previous year, elevated by historical standards. Meanwhile, the sales-to-active listings ratio averaged 13.4 per cent during the first eight months of 2010, significantly lower than Saskatoon's historical norms. With heightened listings relative to demand, price growth in Saskatoon will be modest going into 2011. Next year, heightened levels of active listings will inhibit price gains, with the average MLS® price increasing by nearly two per cent to $296,000.

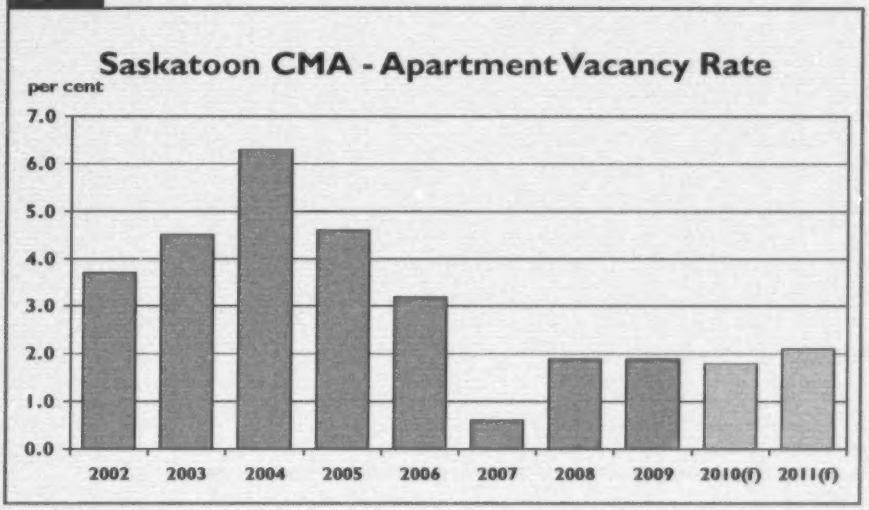
# RENTAL MARKET

## Average vacancy rate inches up in 2011

Despite additions to the rental universe in the form of re-introduction of renovated units, the average vacancy rate in Saskatoon will see little change in 2010. Accordingly, our forecast calls for a slight moderation in vacancy rates, from 1.9 per cent in October 2009 to 1.8 per cent this year. The elevated migration levels that spearheaded low vacancies across metro from 2006 through 2009 are a factor that will also maintain low vacancy rates over the forecast period. In addition, rising prices will inhibit some renter households from moving to homeownership.

New rental supply, meanwhile, continues to arrive in the secondary rental market via condominium investments. Last year, 14 per cent of all apartment condominiums surveyed had made their way into the rental market. This and the 480 apartment units under construction as of August is an indication of pending increases in supply over the forecast period. Meanwhile, fewer units are expected to be removed from the rental universe due to condominium conversion, as local policy restricts these types of investments in lower vacancy conditions. On balance, these factors will result in a slight increase in average vacancy rates to 2.1 per cent in 2011.

Figure 5




Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

## Average monthly rent advances moderately through 2011

The average monthly rent for a two-bedroom apartment will advance 3.3 per cent to $935 in the October 2010 rental market survey. This represents a $30 increase in the average monthly rent compared to the 2009 survey, and is considerably lower than the $64 monthly rent increase recorded between 2008 and 2009. The moderation in the pace of rent increases is, in part, due to the narrowing of the monthly cost differential between renting and owning a home in 2009. This facilitated the movement of some tenants into homeownership. Between January 2009 and January 2010, the differential between average monthly rent and mortgage payment for the average resale home (principle and interest) declined from just over $740 per month to $488.

A combination of historically low mortgage rates and the decline in house prices were responsible for this reduction in monthly expenditures. Recently, the cost differential has widened as resale prices and mortgage rates have edged upward. As this gap expands further, it will help reinforce demand for rentals and reduce the incentive to move to homeownership. Nonetheless, with resale prices expected to increase at a more subdued pace over the forecast period, we anticipate that property owners will reduce the pace of rent increases compared to recent years in an effort to curb the movement from rental to homeownership. This sets the stage for the average monthly rent for a two-bedroom apartment to increase to $950 in 2011.

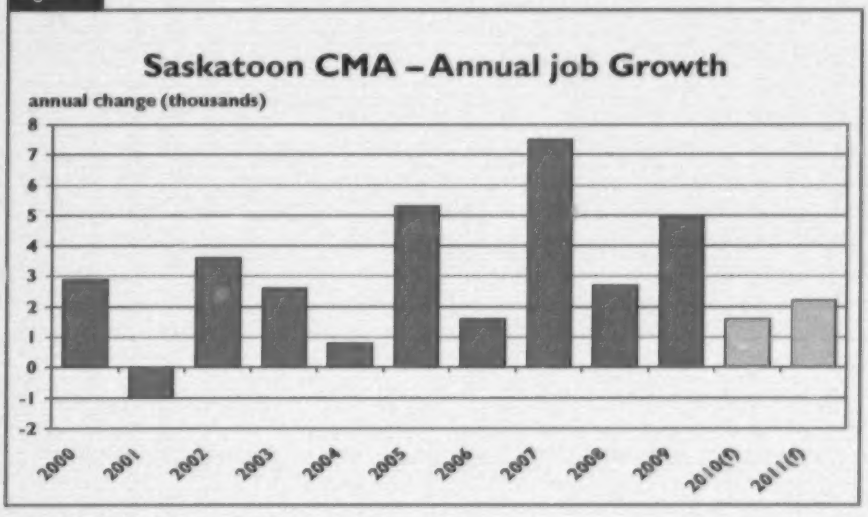
# ECONOMIC OUTLOOK

## Sustained growth through forecast period

Following last year's downturn, Saskatoon's economy is expected to expand this year with Saskatchewan's energy and resource sector providing a major impetus to this expansion. So far this year, the upturn in commodity prices, particularly the increase in the price of oil, has led to significant increases in drilling and exploration activity. Likewise, despite suppressed prices, potash production and exports to the end of July had more than doubled from the previous year. This has had a telling impact on Saskatoon's service, transportation, and utilities sectors, and generally bolstering the region's labour market.

Saskatoon continues to see major public sector investment in new and on-going capital projects this year related to health, education, and transportation infrastructure. This, along with higher residential construction, continues to have a favourable impact on the construction sector where both average weekly earnings and employment are on an upward trajectory. Likewise, employment is up in the resource industries, particularly in the oil and gas extraction sector where salaries surpass the average for all industries. Overall, CMHC expects average employment to expand by 1.6 per cent in 2010 and 2.2 per cent next year. The region's improving labour market will ensure that Saskatoon continues to attract new migrants,

Figure 6




Source: Statistics Canada, CMHC Forecast (f)

strengthening population growth and supporting housing demand.

Over the forecast period, continued global economic recovery, in particular, the increase in potash and natural gas prices, will further strengthen economic activity. This will provide a boost to Saskatoon's labour market, and spur increased outlays of private sector investments. Despite the above sources of optimism, a number of factors may slow the pace of economic recovery. If persistent throughout the forecast period, a Canadian dollar near parity with the U.S. could slow the rebound, especially within the manufacturing and resource sectors. Likewise, continued suppression of the price for potash could inhibit the pace of economic recovery across Saskatoon.

### Net migration to flat-line in 2010

Following heightened migration levels in the last few years, net migration into Saskatoon is expected to remain elevated at 5,000 people this year. Saskatoon's relatively favourable economic performance compared to many other centres will ensure that the heightened pace of in-migration is sustained over the forecast period. However, sustained increases in housing costs of all forms will temper some of Saskatoon's magnetic draw to migrants. Likewise, with other centres also expected to post economic expansions in 2011, we anticipate that the currently heightened pace of inter-provincial migration will be tempered next year. Nevertheless, CMHC's forecast calls for migration to total 4,800 people next year, with a substantial increase in the ratio of international migrants.

## MORTGAGE RATE OUTLOOK

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

## Forecast Summary
## Saskatoon CMA
## Fall 2010

| | 2007 | 2008 | 2009 | 2010f | % chg | 2011f | % chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS® Sales | 4,446 | 3,540 | 3,834 | 3,500 | -8.7 | 3,600 | 2.9 |
| MLS® New Listings | 5,816 | 8,141 | 6,463 | 6,450 | -0.2 | 6,350 | -1.6 |
| MLS® Average Price ($) | 232,754 | 287,803 | 278,895 | 291,000 | 4.3 | 296,000 | 1.7 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 1,485 | 1,288 | 1,101 | 1,600 | 45.3 | 1,300 | -18.8 |
| Multiples | 895 | 1,031 | 327 | 525 | 60.6 | 400 | -23.8 |
| Starts - Total | 2,380 | 2,319 | 1,428 | 2,125 | 48.8 | 1,700 | -20.0 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 272,802 | 366,526 | 383,234 | 382,000 | -0.3 | 392,000 | 2.6 |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 256,568 | 354,765 | 373,262 | 375,000 | 0.5 | 395,000 | 5.3 |
| New Housing Price Index (% chg.) | 38.8 | 20.6 | -7.6 | 2.7 | - | 2.9 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 0.6 | 1.9 | 1.9 | 1.8 | - | 2.1 | - |
| Two-bedroom Average Rent (October) ($) | 693 | 841 | 905 | 935 | - | 950 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 6.90 | 6.70 | 4.02 | 3.47 | - | 3.20 | - |
| Mortgage Rate (5 year) (%) | 7.07 | 7.06 | 5.63 | 5.59 | - | 5.20 | - |
| Annual Employment Level | 135,500 | 138,200 | 143,200 | 145,500 | 1.6 | 148,700 | 2.2 |
| Employment Growth (%) | 5.9 | 2.0 | 3.6 | 1.6 | - | 2.2 | - |
| Unemployment rate (%) | 4.0 | 4.0 | 4.6 | 5.2 | - | 4.7 | - |
| Net Migration [1] | 4,403 | 5,845 | 5,000 | 5,000 | 0.0 | 4,800 | -4.0 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

(1) The 2009 migration data is a forecast

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 08, 2010.

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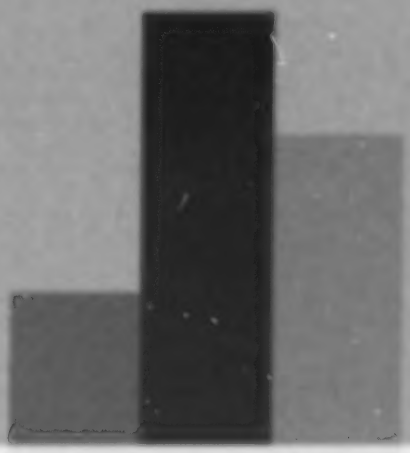

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